



Chair Hartung introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

## **ECONOMIC AND MARKET UPDATE**

### **Economic/Market Snapshot and Probabilistic Expectations**

Phillips gave an economic snapshot of the market.

#### Probabilistic Expectations

- Fed: Stays Hawkish and Hikes the Fed Funds Rate to 5.5%, Does Not Ease in 2023
- CPI YOY: Disinflation to 4'ish Percent by the End of 2023
- GDP: Growth Slows and the U.S. Falls Into Recession in 2023
- Supply Chains: Continue to Improve, Helping Inflation Move Lower
- Unemployment: Rises to High 4s by the End of 2023
- Dollar: Stays Strong, Assisting Inflation to Decelerate
- Consumer Spending: Rate of Change Continues to Slow in 2023
- Housing: Sales and Prices Continue to Decline
- Global Economy: Goes Into Recession in 2023

Chair Hartung asked Phillips about the difference in the S&P 500 and The Dow. Phillips answered that while they do correlate over the long run, week to week there can be some big changes because of how they are calculated. Phillips does expect stocks to have trouble going forward as they expect the Fed to stay aggressive.

### **Higher Inflation Has Driven Rates Higher**

Primary Drivers of 2022's Higher Inflation: Fiscal Stimulus and Supply Chain Challenges (war). The 2Year and Consumer Price Index (CPI) were charted from 2000 through present and while there were some timeframes with difference, they mostly correlate over time.

### **Massive Fiscal Stimulus is Done... Consumers Probably Won't Be as Strong**

The U.S. Personal Savings Rate went up with the first, second, and third stimulus checks. Most of those savings have since been spent down and further stimulus is not expected. It is expected that the consumer will be strong, but then start to slow more next year.

### **M2 Growth Has Crashed... Expected to Push Inflation Lower**

M2 is a measure of the U.S. money stock that includes M1 (currency and coins held by the non-bank public, checkable deposits, and travelers' checks) plus savings deposits (including money market deposit accounts), small time deposits under \$100,000, and shares in retail money market mutual funds.

### **Supply Chain Challenges Better: Shanghai to LA Shipping Rates are Sinking**

A chart tracking the shipping rates from 2015 through present showed that rates skyrocketed during Covid but are coming back down to pre-Covid levels.

### **If Future Inflation Averages .3% Per Month (3.6% Per Year) ... Disinflation**

Two graphs were shown depicting month-over-month CPI and year-over-year CPI. Phillips explained that indicators point to lower inflation in the future.

### **The Market and Fed Expects Inflation/Unemployment to Get to Target Zone**

Expected monthly CPI and the unemployment rate were graphed showing CPI getting to 2.9 at the end of next year and unemployment only going up from 3.5 to 4.4%.

### **The Fed's Projected .9% Increase of Unemployment... Take the Over**

Phillips explained that data from 1948 through 2020 showed the average increase was 4.4%, and FHN predicts job losses over the next year. Chair Hartung asked Phillips how the labor market factors into this with so many employers having a difficult time finding qualified employees. Phillips explained that it is an odd labor time, and the cycle can be different this time.

### **Inflation Components**

What goes into the consumer price index (CPI)? Phillips explained that Shelter (32.39%), food (13.99%), transportation commodities [except motor fuel] (7.98%), Energy (7.54%), medical care and services (6.99%), education and communication services (6.01%), transportation services (5.05%), and other expenditure categories factor into CPI.

### **Housing Disinflation is Expected... But with a Big Lag**

A graph was shown depicting the Case-Shiller National vs CPI Shelter OER from 1991 through 2022. A downshift in housing is expected with lower house gains and decline. From the County's perspective, there is an abatement built up that will help protect property taxes.

### **Interest Sensitive Sector of Housing is Recessionary**

Existing home sales dropped from 6.49 million annualized in January 2022 to 4.5 million in August 2022. Luxury home sales are down further than non-luxury. Phillips stated that the Reno Gazette Journal reported that September saw a 5% decrease from the previous month in sale's price.

### **Used Vehicles Are Falling at Their Fastest YOY Rate...Ever!**

The chip shortage during Covid prevented people from buying new cars and drove up used car prices. Now that supply chain issues have resolved, the index of used cars is still higher than it was pre Covid, but it is the fastest year-over-year change/decline ever seen.

### **Wages: Lowest Rate of Change Since December 2021... But Still High**

Average wages YOY and CPI YOY were shown, and Phillips explained that real wages have been lower. There was a wage increase of about 5% but wages are not keeping pace with consumer prices. The tight labor market is expected to come down next year.

### **Fed's 2<sup>nd</sup> Mandate (Full Employment): Slowest Job Growth This Year**

Phillips explained that as job growth has come down throughout the year, it would not be surprising to see job losses next year.

### **Stocks Lower > Wealth Effect Lower > Inflation Lower**

The ratio of the Stock's Market Cap to Nominal GDP was shown. The stock market is expected to have continued challenges over the next year. Phillips explained that the indicator was calculated using the total stock market capitalized value in the US divided by nominal GDP.

### **Dollar's Rise is Disinflationary**

The strength of the dollar has negatively impacted other countries because so much trade is done in dollars, and they are having to pay back at a weaker currency.

### **Fed Funds Futures Pricing In a 5.0% Peak... Then Cuts in 2023/2024.**

A rate of 5.5% to 6% is expected in 2023. Since 1984, Phillips reported that once the Fed stops hiking, they cut an average of seven months later.

**Massive Move in Yields... A Big Yay for Portfolios!**

The 1M Treasury Bill at the end of last year was 2 basis points and it has gone up to 314, a significant increase in yield.

**“It’s Tough Making Predictions... Especially About the Future! Yogi Berra**

The forecast for the end of 2022 from December 2021 had a 3.47% difference.

**Biggest Drawdown in Bonds...Ever**

The Bloomberg U.S. Aggregate Bond Index: Historical Drawdowns (Monthly, 1976-2022) was shown and Phillips reported that this was the worst year in the history of the data set because rates have gone up so fast from such a low level.

**Portfolio Metrics and Information**

**Portfolio Summary**

The three main objectives of the portfolio are safety, liquidity, and income. Phillips reviewed charts in the investment report representing the Sector Allocation, Maturity Distribution, Credit Quality, Account Summary, Month-End Portfolio Book Yield, and Top Issuers. Phillips stated that they will be lowering the County’s corporate exposure as recession approaches.

**Historical Book Values**

The growth of the Book Values was charted from July 2016 through September 2022, and it showed that the portfolio increased substantially to \$824.5 million. The \$84 million of ARPA funds in the State’s LGIP is not included in this value.

**Historical Earning & Book Return Performance**

The fiscal year-to-date earnings and the fiscal year-to-date book return were shown by month.

**Historical Yield At Cost vs Benchmark**

The Investment Management Plan indicates that the portfolio should earn a market rate of return over time.

**AGENDA ITEM 6 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]**

**Agenda Subject: “This item is limited to announcements or issues proposed for future agendas and/or workshops.”**

Chair Hartung called for any committee member comments. County Manager Eric P. Brown welcomed the County’s new Chief Financial Officer, Abbe Yacoben, to the Washoe County Investment Committee. Chief Financial Officer Yacoben thanked Manager Brown and said she is looking forward to working with the committee. Treasurer Jacobs said that this is her last meeting and thanked the committee members.

**AGENDA ITEM 7 – PUBLIC COMMENTS [NON-ACTION ITEM]**

**Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”**

Chair Hartung called for public comment and there was none.

**AGENDA ITEM 8 – ADJOURNMENT [NON-ACTION ITEM]**

Chair Hartung adjourned the meeting.

**Attachments to Minutes**



Agenda Item 3 - 08-09 Minutes  
Agenda Item 4 - penc2023 Calendar with



Agenda Item 5 - Washoe Co Investm